

ABN 70 250 995 390

180 Thomas Street, Sydney
PO Box A1000 Sydney South
NSW 1235 Australia
T (02) 9284 3000
F (02) 9284 3456

Thursday, 3 August 2023

Anna Collyer
Chair
Australian Energy Market Commission
Lodged online: www.aemc.gov.au

Dear Anna

AEMC consultation paper on accommodating financeability in the regulatory framework

Transgrid welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper on Accommodating financeability in the regulatory framework. The consultation paper commences the AEMC's consideration of two rule changes on this topic, submitted by Energy Networks Australia (ENA) and the Commonwealth Minister for Climate Change and Energy, The Hon Chris Bowen MP. The rule changes seek to address the financeability risks that arise in relation to actionable Integrated System Plan (ISP) projects under the current regulatory framework in the National Electricity Rules.

Transgrid shares the Government's desire to accelerate the delivery of critical transmission infrastructure projects in the ISP, which will put downward pressure on the costs faced by electricity consumers. As identified in the ENA rule change, AEMO has estimated that every dollar spent on actionable ISP projects will deliver more than \$2 of net benefits to consumers, in addition to the wider benefits to Australia in facilitating emissions reductions and the achievement of Australia's net zero emission targets.

To this end, Transgrid supports the Commonwealth Energy Minister's conclusion that financeability risk is a gap in the regulatory framework that needs to be addressed. However, our view is that this rule change falls short of meeting its intended objective and would not secure the consumer benefits associated with the timely delivery of actionable ISP projects.

Transgrid's concern is that the Commonwealth Energy Minister's rule change is a principles-based approach that requires the AER to exercise its discretion in identifying and resolving financeability risks. Furthermore, the AER's proposed remedy for a particular project would not be known until sometime after investors are expected to commit significant funding to the project through community engagement and 'early works' activities. As a consequence, the Commonwealth Energy Ministers rule change would not provide investors, operating in a highly competitive global market, with the sufficient confidence that financeability risks will be identified and resolved satisfactorily or in timely manner.

In contrast, the ENA rule change request proposes that a transparent and objectively replicable mechanism is specified in the rules to address financeability issues. Under this approach investors would have certainty, in advance of committing to actionable ISP projects, on how future financeability problems will be identified and addressed. The proposed mechanism would not result in consumers paying more for actionable ISP projects in present value terms, while also minimising the reprofiling of the price path. It therefore secures the consumer benefits from actionable ISP projects, which AEMO states are required urgently, without any further Government support and without delay. Transgrid notes that the

Commonwealth Energy Minister's rule change also asks the AEMC to consider a prescriptive approach to financeability.¹

Biodiversity costs

Transgrid supports the Commonwealth Energy Minister's proposal that biodiversity offset costs should be depreciated on an 'as incurred' basis. As explained in that rule change request, the benefits of biodiversity offsets will be obtained before project commissioning, which supports an 'as incurred' depreciation approach for these costs.²

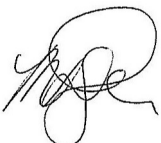
In its consultation paper, the AEMC has asked stakeholders whether the Commonwealth Energy Minister's proposal would re-allocate project completion risk from TNSPs to consumers and, if so, why this reallocation of this risk is appropriate. Transgrid considers that this issue is not a material concern for the following reasons:

- Where biodiversity and environmental offset or remediation costs arise *after* the TNSP has committed to delivering the project, there is no project completion risk.
- In contrast to other construction-related costs, the consumer benefits from the biodiversity and environmental offset or remediation expenditure commence as the expenditure is incurred (rather than when the transmission project is commissioned).
- Even if the project does not proceed, the biodiversity and environmental offset or remediation costs can be transferred to another project or recovered by re-selling those offsets in the market, which would likely eliminate any risk to consumers.

While Transgrid supports the proposal to depreciate biodiversity offset costs on an as incurred basis, this does not obviate the need for a formulaic resolution of financeability risks as put forward in the ENA rule change request. Transgrid therefore regards this aspect of the Commonwealth Energy Minister's proposal as helpful in reducing financeability risks, but it is not sufficient to address the broader concern that actionable ISP projects may not be financeable under the current regulatory framework.

Transgrid looks forward to working with the AEMC as it develops its draft determination in the coming months. If you have any queries regarding this submission, please contact Neil Howes in the first instance by email neil.howes@transgrid.com.au.

Yours faithfully



Maryanne Graham
Executive General Manager, Community and Policy

¹ Commonwealth Energy Minister financeability rule change request, March 2023, p. 6.

² Ibid., pp. 4-5.